

SIERRA LEONE

Recent developments

Table 1 **2017**

Population, million	7.6
GDP, current US\$ billion	3.9
GDP per capita, current US\$	521
International poverty rate (\$ 19) ^a	52.2
Lower middle-income poverty rate (\$3.2) ^a	81.3
Upper middle-income poverty rate (\$5.5) ^a	94.7
Gini coefficient ^a	34.0
School enrollment, primary (% gross) ^b	127.6
Life expectancy at birth, years ^b	51.4

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2011), 2011 PPPs.

(b) Most recent WDI value (2015)

Real GDP growth fell to 4.3 percent in 2017 (from 6.3 percent in 2016) due to weak recovery of mineral production particularly iron ore. Economic growth is expected to rebound to 6.5 percent in the medium term driven by robust growth of agriculture and services and strong improvement in investment. However, only marginal progress on poverty is expected. Downside risks to growth include persistent fiscal deficit, adverse debt dynamics, weaknesses in the banking sector as well as elections related uncertainties.

Economic growth slowed to 4.3 percent in 2017 (from 6.3 percent in 2016) due mainly to a weak recovery of mineral production especially iron ore. Iron ore production amounted to only 6.5 million metric tons compared to an anticipated 9.0 million metric tons. In addition, the growth rate of construction decelerated following the slowdown in public infrastructure investment. Agriculture and fisheries, showed signs of resilience following improved support to farmers, while the service sector benefitted from increased tourist arrivals and a recovery in commerce, following the end of the Ebola epidemic.

Inflationary pressures remained elevated throughout 2017 although consumer price inflation declined to 15.3 percent from 17.4 percent in 2016 due to relative stability of the exchange rate reinforced by the tight monetary policy stance of the Bank of Sierra Leone (BSL). The contrasting trends in sectoral growth and price increases may have opposite effects on the incidence of poverty for 2017. The most recent household survey available to estimate poverty in the country is the 2011 Sierra Leone Integrated Household Survey (SLIHS). Hence, the ongoing SLIHS 2018 will help meet the critical need to understand the evolution of poverty since 2011.

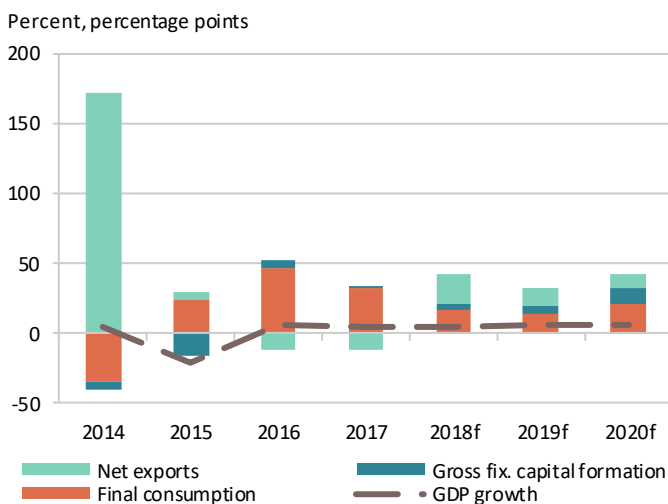
The Bank of Sierra Leone raised the monetary policy rate (MPR) by 50 basis points to 14.5 percent on the 14th of December 2017 to contain inflation. This followed three consecutive 100 basis-point increases

in March, June, and September, respectively, and underpinned a slower growth rate of monetary aggregates. The contraction in net foreign assets (NFA) which more than outweighed the increase in net domestic asset (NDA) led to a fall in the growth rate of broad money.

The overall budget deficit including grants rose to 9.4 percent of GDP in 2017 (compared to 8.1 percent in 2016) due largely to a shortfall in revenue mobilization and spending overruns in all the major expenditure components. The deficit was financed by external loan disbursements and grants as well as domestic borrowing, mainly from the banking system, which exceeded the 2.0 percent of GDP limit on which the Government's medium-term fiscal program is anchored. To ease cash constraints arising from commercial banks' undersubscription to domestic treasury bills, the Government undertook forex swaps operations with commercial banks, totaling US\$ 41.0 million. Furthermore, the Government accumulated huge stock of arrears, mostly unpaid checks, in 2016 and 2017, totaling Le 915.8 billion (2.9 percent of GDP), contrary to the targeted reduction.

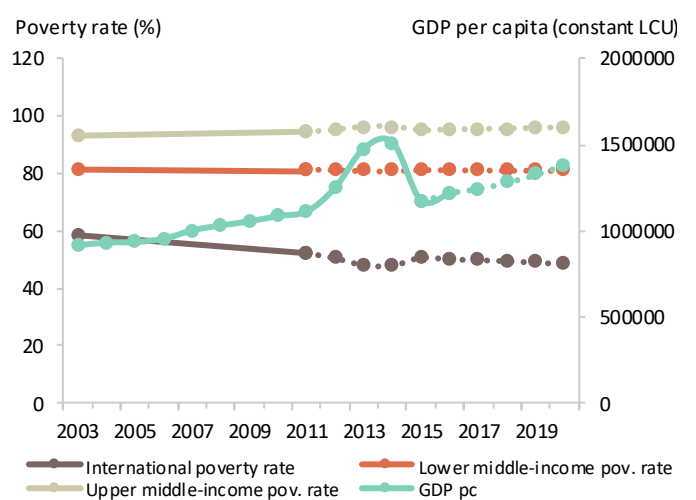
The total public debt stock has sharply increased in the last two years, from 44.3 percent of GDP in 2015 to 53.8 percent in 2016 and a further 54.5 percent in 2017, reflecting the persistence of high fiscal deficits and rapid depreciation of the exchange rate between 2015 and 2016 (27.5 percent). Interest payments on domestic debt rose sharply to 1.5 percent of GDP from 0.6 percent in 2016 due mainly to the rollover of short-term debt at higher

FIGURE 1 Sierra Leone / GDP growth and contributions to growth



Sources: Statistic Sierra Leone and World Bank staff estimates.

FIGURE 2 Sierra Leone / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

interest rates as well as the accumulation of new short-term debt.

The current account deficit widened to 22.6 percent of GDP in 2017 (from 19.9 percent in 2016) due largely to weak export growth and increased importation of food items, machinery and petroleum products. The exchange rate remained relatively stable against the US Dollar at both the official and parallel market windows, depreciating by 4.2 percent and 2.7 percent year-on-year, respectively, reflecting the tighter monetary policy stance of the BSL and suspension of the weekly foreign exchange auction which reduced speculation in the market. Reserve coverage remained at 4.0 months of imports even though gross external reserves declined by 5.9 percent to about US\$500 million in 2017.

Outlook

Economic growth projected is to rise from 5 percent in 2018 to 6.5 percent by 2020. Growth will be driven by increased private sector investments in agriculture and mining coupled with improved spending on road construction and energy as well

investment climate reforms. Overall, only slight progress is expected on the incidence of poverty. Based on a forecasting exercise, the proportion of poor households living below the international poverty line of US\$1.9/day (2011 PPP) is expected to remain flat, or if anything, slightly decrease, at around 50 percent from 2017 into 2018. In the medium-term, growth is expected to translate into further poverty reduction. The fiscal deficit is expected to decline to 3.8 percent of GDP by 2020 with the implementation of Government's medium-term revenue mobilization strategy and new public financial management reforms. BSL is expected to continue tightening its monetary policy stance, complemented by fiscal consolidation, to bring down inflation to 9 percent over the medium-term. Finally, the current account deficit is projected to steadily decline to 15.1 percent by 2020 due to positive outlook of commodity prices which is expected to support export growth.

Risks and challenges

The main risks to Sierra Leone's growth outlook are the persistent fiscal deficit,

adverse debt dynamics, weaknesses in the banking sector as well as elections and post-elections uncertainty. First, the near-suspension of the ECF program and weak revenue outlook may hinder fiscal consolidation leading to higher fiscal deficits, and the financing of the deficit could limit monetary policy efforts to contain inflation. Second, the Government signed a new loan agreement of US\$ 318 million with China EXIM Bank for the construction of a new airport, which coupled with new borrowings to finance the persistent fiscal deficit including high debt interest payments, could put the country at high risk of debt distress. Third, the large buildup of suppliers' arrears, a type of forced financing of the deficit, is weakening the loan portfolio of commercial banks as nonperforming loans of the banking industry remain high at 17.5 percent. This, combined with the preexisting weaknesses in the two state-owned banks, may undermine financial stability and increase the fiscal costs of resolution. Finally, as the country goes to the poll on March 7 to elect a new Government, businesses have adopted a wait and see attitude which may slow down both private consumption and investment, thereby constraining growth.

TABLE 2 Sierra Leone / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	-20.5	6.3	4.3	5.1	5.7	6.5
Private Consumption	-0.2	9.4	11.1	9.6	13.0	12.6
Government Consumption	24.2	37.9	21.5	7.3	1.5	8.7
Gross Fixed Capital Investment	-15.2	5.2	1.6	4.1	5.1	8.1
Exports, Goods and Services	-55.1	21.7	19.4	27.2	26.0	27.0
Imports, Goods and Services	-18.3	23.9	24.3	22.0	24.0	24.2
Real GDP growth, at constant factor prices	-21.2	6.3	3.9	5.1	5.7	6.6
Agriculture	3.5	3.8	4.8	5.0	5.4	5.6
Industry	-77.3	27.4	5.6	12.0	12.2	20.4
Services	3.7	5.0	2.3	3.2	4.0	3.2
Consumer Prices (end-of-period)*	10.1	17.4	15.3	9.5	9.0	8.0
Current Account Balance (% of GDP)	-17.6	-19.9	-22.6	-20.4	-16.3	-15.1
Fiscal Balance (% of GDP)	-4.5	-8.1	-9.4	-7.4	-5.4	-3.8
Debt (% of GDP)	45.3	53.8	54.5	54.8	53.1	50.4
Primary Balance (% of GDP)	-3.7	-7.4	-7.9	-5.8	-4.7	-3.5
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	50.8	50.2	50.0	49.6	49.1	48.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	81.2	81.2	81.2	81.2	81.2	81.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	95.2	95.4	95.5	95.6	95.7	95.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast. * = IMF staff estimates

(a) Calculations based on 2003-SLIHS and 2011-SLIHS. Nowcast: 2015 - 2017. Forecast are from 2018 to 2020.

(b) Projection using point-to-point elasticity (2003-2011) with pass-through = 0.525 based on GDP per capita in constant LCU.